



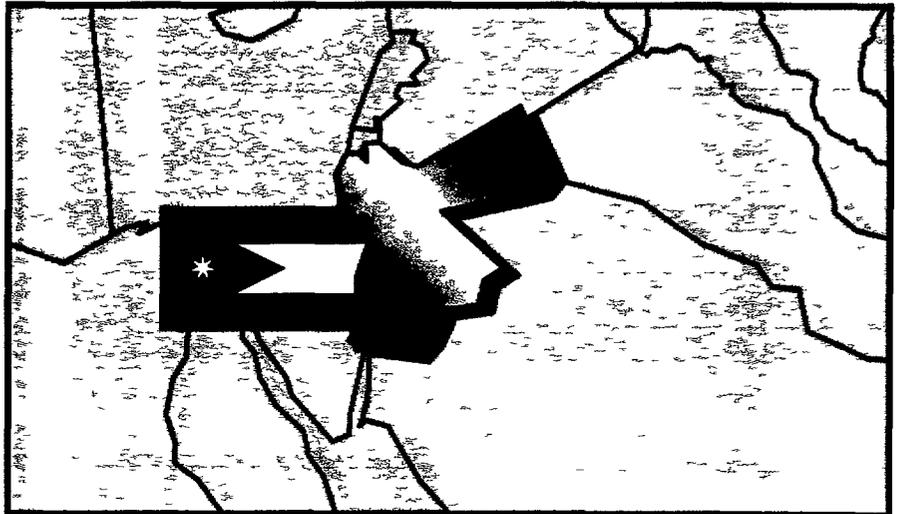
# *Jordan Loan Guarantee Corporation*

## *Assessment of Current Pricing Policies*

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## I INTRODUCTION

The prime source of income for most credit guarantee organizations are the fees, premiums, or commissions charged for guarantees issued. These charges are levied on the lending institutions which are the immediate beneficiaries of the guarantee program, but in virtually all cases those fees are passed on to the borrower.

Worldwide, there are more than 100 active credit guarantee organizations. About half are export credit agencies (ECAs) and the rest are mostly oriented to the small business sector. A plurality of these schemes charge a one-time, front-end fee of 1-4% of the amount of the loan involved (but in some cases of the amount of the guarantee approved). This is then followed by an annual fee of 1-3% of the amount of the actual guarantee. The front-end fee, sometimes referred to as a commission, is usually intended to cover application processing costs, whereas the annual fee is meant to include some allocation for potential claim payments. In a growing number of cases, the front-end fee is a fixed amount, reflecting the relatively fixed cost of processing applications of different sizes. Many of the newer credit guarantee operations limit these fees to a low amount of U.S. \$100 or so.

In most credit guarantee schemes, the annual fee of 1-3% is insufficient to cover both administrative costs and claims. An annual fee of 5% or more would usually be necessary to achieve this. However, such a high fee would have the undesirable effect of substantially increasing borrowing costs, sharply reducing the applications for coverage, decreasing the average creditworthiness of those applications which were submitted, and diminishing the availability of bank credit for the economic sectors which are supposed to be assisted by the guarantee program.

For these reasons, most credit guarantee programs are provided with a capital fund which is large enough to earn substantial investment income. The income from the fund, together with fees, is usually sufficient to cover all expenses, including net claims.

## II FINANCIAL RESULTS AS BASES FOR PRICING POLICIES

ECAs generally establish their premiums and fees on one or more of the following bases (1) to maximize net profit, (2) to maintain the real value of net worth over time, (3) to cover administrative costs and net claims, or (4) to cover administrative costs alone

The first option, maximizing the net profit, is generally followed only by private sector insurers. The public service and national interest goals of official ECAs preclude their making all out attempts to maximize profit, which can be achieved only by increasing fees which are paid by the rest of the export community.

The second option, of maintaining the real value of net worth over time, or even increasing its value, is the policy followed by most official ECAs. It implies charging a level of premiums and fees which, **together with investment income**, will enable the ECA to at least break even after putting aside a sufficient amount of reserves to cover all probable claims.

The third option, of having fees alone cover all administrative costs plus net claims, is achieved by relatively a few agencies offering pre-shipment guarantees alone. However, most ECAs offering high-volume programs in addition to pre-shipment guarantees (like post-shipment insurance and loans) are able to achieve the goal of the third option.

The fourth option, of having fees cover just administrative expenses (not including net claims) should be achievable by all ECAs. It is a minimum standard which is met by almost all agencies, except for start-up ventures. The fourth option of course, requires that net claims be covered from some source other than fees--usually investment income.

### III JLGC FINANCIAL RESULTS

JLGC has shown rapid and substantial improvement in most financial indicators in recent years, based upon current pricing policy and other operational and financial practices. This is reflected in the table below, which summarizes JLGC's balance sheets and income statements, in Jordanian dinars, for 1996, 1997, and 1998.

**BALANCE SHEET ( JD'S - 000 OMITTED )**

	1996	1997	1998
<b>ASSETS</b>			
Cash in hand & at banks	4	12 9	13 7
Certificates of Deposit at 10%			360
Term deposits at 9%	8,494	10,704	10,985 90
Investment in company shares	843 5	890 6	816 1
Other current assets			
Accrued interest	78 6	78	82 8
Accrued commissions	14 5	31 5	55 8
Prepaid Expenses	3 4	9 7	9 8
Refundable deposits	1 1	1 8	2 5
Total Other Current Assets	97 7	121 2	151 1
Investment in government bonds	1,000	1 000	988 2
Fixed assets	142 6	184 2	163 1
<b>Total Assets</b>	<b>10,582 50</b>	<b>12,913 90</b>	<b>13,478 30</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
	1996	1997	1998
<b>Liabilities</b>			
Proposed dividends	322 6		
CBJ unpaid dividends	150	296 3	296 3
Deferred revenue	79 2	74 9	54 9
Other liabilities			
Board of Directors remuneration		25	25
Scientific research & vocational training		4 6	4 5
Universities fees		4 6	4 5
End of service endemnity provision			19 3
Accrued expenses		9 3	9 3
Unpaid call-up capital on investee co		56 2	
Accrued re-insurance fees			5 6
Total other liabilities	67 3	99 9	68 3
Loan guarantee provision	1,493 20	1,731 30	1,797 40
<b>Total Liabilities</b>	<b>2,112 40</b>	<b>2,202 50</b>	<b>2,221 20</b>
<b>Shareholders Equity</b>			
Authorized capital of 10 Million shares			
Subscribed capital of 9,875,000 shares			
Paid in capital	8,065	9,875	10,000
Statutory reserve	117 4	163 9	209 4
Voluntary reserve	117 4	163 9	209 4
Retained Earnings	170 3	508 4	838 2
<b>Total Shareholders Equity</b>	<b>8,470 10</b>	<b>10,711 30</b>	<b>11,257 10</b>
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>10,582 50</b>	<b>12,913 90</b>	<b>13,478 30</b>

**INCOME STATEMENT**

	1996	1997	1998
<b>Revenues</b>			
Commissions on guranteed loans	70 2	118 4	211
Commissions on guranteed export loans		1 8	12 7
Counsulting fees		3 2	3 9
Total income from operations		123 4	227 6

	1996	1997	1998
Amount recovered from loans written off		14 9	15 2
Interest Income	775 90	1,000 80	962 7
Bonds interest	90 8	90 5	90 6
Certificates of deposit interest			5 2
Dividends	11 3	13 7	10 5
Other Income	13 2	20 7	21 5
<b>Total Revenue</b>	<b>961 6</b>	<b>1,264 50</b>	<b>1,333 70</b>
Less Loan guarantee provision	177 8	414	241 2
Export Guarantee Provision			4
<b>General &amp; Administrative expense</b>			
Salaries & Wages	123 5	172 2	232 9
Contributions to Social Security	7 8	14 1	17 5
Contributions to Savings Fund	6 3	10 3	
Board of Director's Transportation	20 6	20 7	26
Rent	16 9	20	26 2
Depreciation Expense	30 6	42 4	47 6
Maintenance Expense	0 4	0 7	1 3
Vehicles Expense	6 1	6 4	6 6
Marketing Expenses	28 6	23 5	14 8
Professional Fees	16 8	8 7	11 9
Office duties & training courses	19 1	24 8	27 2
Employees incentives		7 8	11 6
Fees & subscriptions	12 6	0 9	
Stationery & printings	7 7	11 9	8
Post Telephone & electricity	6 1	10 1	12 7
Others	7 3	11 8	14
<b>Total General &amp; Administrative Expense</b>	<b>311</b>	<b>375 8</b>	<b>458 9</b>
Provision for decline in value of Investments	16 4	9 1	174 5
Net Income b/f taxes & other provisions	456 2	465 5	454 9
Provision for scientific research etc	-4 5	-4 6	-4 5
Provision for universities fees	-4 5	-4 6	-4 5
Board of Directors remuneration	-18 3	-25	-25
<b>Net Income</b>	<b>428 7</b>	<b>431 2</b>	<b>420 8</b>
Add Retained earnings previous year	155 4	170 3	508 4
<b>Income available for appropriation</b>	<b>584 1</b>	<b>601 5</b>	<b>929 2</b>
Appropriation			
Statutory reserve	45 6	46 6	45 5
Voluntary reserve	45 6	46 6	45 5
Proposed dividends	322 6		
Retained earnings, year end	170 3	508 4	838 2
<b>Total</b>	<b>584 1</b>	<b>601 5</b>	<b>929 20</b>

As shown in the balance sheets, JLGC has increased its total shareholders equity by 33% over the last three years, from the equivalent of US \$11 9 million in 1996 to US \$15 9 million at the end of 1998(using an exchange rate of JD1 00 = US \$1 41) At the same time, the value of total assets has increased from \$ 14 9 million in 1996 to \$ 19 0 million in 1998 Almost all of these

are financial assets, invested in term deposits, company shares and government bonds, most of which are liquid and available to cover any claims that may be filed. JLGC=s actual liabilities are minimal, amounting to \$3.0 million in 1996 and \$3.1 million at the end of 1998. However, contingent liabilities, pertaining to outstanding guarantees, have shown substantial growth, increasing from under \$20 million in 1996 to \$33.8 million at the end of 1998. Contingent liabilities are off-balance sheet items and are therefore not shown on the previous statements.

JLGC=s income statements show a 39% increase in revenues, from \$1.4 million in 1996 to \$1.9 million in 1998. At the same time, there was a 48% increase in general and administrative expenses, which rose from \$0.4 million in 1996 to \$0.6 million in 1998, and a 38% increase in loan guarantee provisions for claims, from \$0.2 million in 1996 to \$0.6 million in 1998. The bottom line result was that net income remained about the same throughout the 3 year period, at \$0.6 million. Neither administrative expenses nor claims appear to be out of line with JLGC=s current volume of business. Sound management practices in coming years, including appropriate marketing and pricing policy, should produce a general increase in net profitability.

In order to judge the appropriateness of JLGC=s current pricing policies, it is worthwhile to compare various financial data of JLGC with those of other ECAs.

In 1998, JLGC=s revenue from premiums and fees was equal to less than 2% of loans covered during the year. This compares with an average ratio of 3% for 43 other guarantee and insurance organizations worldwide. The latter was strongly influenced by medium to long-term business covered in very risky markets, which command relatively high premiums, an activity in which JLGC did not indulge.

JLGC=s premium and fee revenues are also lower in relation to administrative expenses than world averages. During 1998, JLGC=s general and administrative expenses equaled 34% of revenues. This compares with an average of 28% for all other guarantee and insurance organizations. However, bear in mind that JLGC is still relatively young and is in the process of building its portfolio, which entails greater relative administrative expense than required for older, more well established agencies.

JLGC=s premium and fee revenues are actually higher than world averages in relationship to claims paid. In 1998, JLGC=s premium/claims ratio was 17%, compared to an average of 59% for all other guarantee and insurance organizations. Assuming that JLGC is handling claims expeditiously, this may indicate relatively conservative underwriting standards.

A final measure of premium and fee pricing policy would indicate that JLGC=s premiums and fees are low in relation to world usages. After adding investment income to premium and fee revenues, JLGC=s bottom line net income was 32% of premium and fee revenues in 1998. This compares with an average of 53% for all other guarantee and insurance organizations. Again, these data should be interpreted, at least in part, as a reflection of the relative newness of the JLGC.

On balance, a comparison of JLGC=s financial and performance data with other ECAs worldwide indicates the desirability of some slight increase in JLGC=s premiums and fees. However, it is important not to overdo this.

## IV OTHER FACTORS INFLUENCING PRICING POLICIES

A number of other factors influence the level of guarantee fees and insurance premiums charged by ECAs. The main ones are discussed below.

**National Interest Considerations**\_ ECAs typically charge higher or lower fees depending upon the extent to which they seek to encourage additional exports, domestic employment, or other national interest considerations.

**Whole Turnover Requirement**\_ If the guarantee or insurance holder is required by the ECA to cover all or a significant part of its credits whether or not it wishes to do so, the ECA can and should charge a lower level of fees or premiums.

**Breadth and Scope of Total Exposure**\_ ECAs with a relatively small, concentrated risk portfolio usually charge higher fees or premiums than ECAs with a large, good spread of risk portfolio.

**Percentage Covered**\_ The percentage of risk on each transaction which is covered by the ECA has a very important impact on the level of premiums and fees. Higher percentages of cover typically carry higher premium rates because there is less incentive for the guaranteed or insured party to minimize losses.

**Application Fee, Underwriting Fee, etc**\_ Some ECAs charge fees additional to the basic insurance or guarantee fee. This may produce lower levels of guarantee and insurance premiums.

**Risks Covered**\_ Premiums and fees also vary with the types, of risks which are covered. Coverage of more, rather than fewer, specified risks results in higher, rather than lower, premiums.

**Other Criteria**\_ Additional criteria frequently used by ECAs in determining specific premiums and fees include the credit term (tenor) involved, the country of the buyer, the buyer's financial status, the type of product to be exported, the existence of foreign competition, the existence of a guarantee from a sovereign or financial institution, experience with the insured party, type of trade documentation utilized, etc.

## V PRICING POLICIES OF OTHER ECAS

**Competitive Situation** Bearing in mind the numerous factors affecting premium levels, the table below compares average premium rates for short-term post-shipment export credit insurance offered by all of the ECAs which were Berne Union members in 1996. With rare exceptions, this is whole turnover business.

### POST-SHIPMENT EXPORT CREDIT INSURANCE PREMIUMS AS PERCENTAGE OF BUSINESS COVERED (up to six months)

COUNTRY	ECA	PREMIUM
Argentina	CASC	0.50
Australia	EFIC	0.28
Belgium	OND	0.77
Cyprus	ECIS	0.41
Denmark	EKR	0.20
Denmark	FGB	0.50
France	COFACE	0.80
Germany	HERMES	0.80
Hong Kong	HKEC	0.54
India	ECGC	0.39
Indonesia	ASEI	0.49
Israel	IFTRIC	N/A
Italy	SIAC	0.47
Jamaica	EXIMJ	3.15
Korea	KEIC	0.15
Malaysia	MECIB	1.38
Mexico	BANCOMEXT	0.64
Netherlands	NCM	0.48
New Zealand	EXGO	0.28
Norway	GIEK	0.35
Singapore	ECICS	0.54
Spain	CGIC	0.67
Spain	CESCE	0.60
Sri Lanka	SLECIC	0.66
Sweden	EKN	0.54
Switzerland	ERG	N/A
Switzerland	FEDERAL	0.30
Turkey	TURKEXIM	0.34
UK	ECGD	1.64
UK	TI	0.19
USA	EXIMBANK	0.40

COUNTRY	ECA	PREMIUM
USA	FCIA	0 30
Zimbabwe	CREDSURE	0 33
Poland	EGAP	0 41
China	PICC	1 00
Taiwan	TEBC	0 41

As shown above, the average insurance premium for six months is approximately 50% (equivalent to 1 00% for 12 months) The highest premium is 3 15% for Jamaica and the lowest is 20% for Denmark

Short-term pre-shipment guarantee fees for selected Berne Union and non-Berne Union members are shown below for 1996 In every case, this reflects single exporter coverage and the guarantee agency has no whole turnover requirement

**PRE-SHIPMENT WORKING CAPITAL GUARANTEE FEES  
AS PERCENTAGE OF LOAN COVERED  
(up to 12 months)**

Country	Guarantee Agency	1996
USA	SBA	75
USA	EXIMBANK	1 25 (Avg )
Colombia	FNG	3 50 (Avg )
Egypt	CGC	2 00
Korea	KCGF	1 00
Taiwan	SMBCGF	75
Indonesia	ASKRINDO	60
Thailand	SICGC	1 50
Philippines	GFSME	1 80
Malaysia	CGC	50

As shown above, the average guarantee fee is about 1 4% per annum on the amount of the loan covered, ranging from a high of 3 50% for Colombia to a low of 50% for Malaysia

## VI JLGC'S CURRENT PRICING POLICIES

With regard to the PSG program, JLGC's current policy is to charge a guarantee fee equal to 1.5% per annum on the amount guaranteed (which is 75% of the amount of the loan). This is equivalent to a guarantee fee of 1.125% per annum on the amount of the loan. The fee is paid either up-front or quarterly, as agreed between JLGC and the bank.

The DLG program has two basic rates. On productive sector loans the guarantee fee is currently 1.5% per annum of the ceiling amount. Housing sector loans are charged a guarantee fee of half that amount, or .75% per annum of the ceiling amount guaranteed.

With regard to the ECG post-shipment program, offered with COFACE participation, the current premium rates range from a flat .37% to 1.20% of the gross invoice value of covered shipments, for credits with a term of up to 180 days. Thus, on a per annum basis the rates are at least double the above. Premiums are paid monthly in arrears, based upon the value of covered shipments.

No differentiation of fees on a per annum basis is currently made to account for loan size, loan term, sector of borrower (agricultural or individual), size of borrower, purpose of loan (new investment or expansion), type of collateral, or location of borrower.

## VII JLGC'S DEFAULT EXPERIENCE

JLGC's total default experience is in line with that of other ECA and credit guarantee organizations in their formative years

A detailed examination of JLGC's defaults since inception is given in the pages which follow. This indicates that there are major differences in defaults on loans by individual banks. Also, the size of the loan makes a big difference, as does its term. Factors which appear to make little difference in defaults include the size of the company (for those with 25 or less employees), the purpose of the loan (new investment or expansion), and the location of the borrower (inside or outside Amman). Conclusions cannot be drawn on the influence of different types of collateral on defaults nor on the influence of whether the beneficiary was industrial or agricultural.

LOSSES PER BANK BY SEVEN ( 7 ) CATEGORIES

Bank Name	Loan Size									
	0 10K				10 40K				40	
	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank
2 Housing Bank	9 4%	16 6%	24 1%	28 1%	90 6%	77 6%	36 2%	32 6%	0 0%	5 8%
3 Union Bank	0 0%	34 7%	0 0%	5 5%	0 0%	38 5%	0 0%	1 5%	100 0%	26 8%
4 Amman Bank for Investment	0 0%	18 7%	0 0%	0 5%	0 0%	81 3%	0 0%	0 6%	0 0%	0 0%
5 Industrial Development Bank	18 2%	15 4%	7 7%	16 4%	81 8%	39 7%	5 4%	10 5%	0 0%	45 0%
6 Cairo Amman Bank	14 7%	19 5%	7 7%	2 3%	85 3%	71 9%	6 9%	2 1%	0 0%	8 6%
7 ABC/Jordan	100 0%	18 1%	3 4%	7 9%	0 0%	51 7%	0 0%	5 6%	0 0%	30 3%
8 Bank of Jordan	27 3%	15 0%	5 7%	2 2%	72 7%	53 2%	2 4%	1 9%	0 0%	31 8%
9 Jordan Gulf Bank	26 2%	31 4%	20 7%	3 7%	73 8%	48 9%	9 1%	1 4%	0 0%	19 6%
10 Jordan Kuwait Bank	11 5%	14 9%	7 7%	5 2%	88 5%	79 9%	9 2%	7 0%	0 0%	5 2%
11 Philadelphia Inv Bank	0 0%	0 0%	0 0%	0 0%	100 0%	100 0%	1 4%	0 3%	0 0%	0 0%
12 Jordan Inv and Fin Bank	0 0%	0 0%	0 0%	0 0%	100 0%	79 1%	9 6%	1 0%	0 0%	20 9%
13 Middle East Inv Bank	29 9%	49 9%	10 0%	6 8%	70 1%	50 1%	3 7%	1 7%	0 0%	0 0%
14 Arab Bank PLC	0 0%	3 9%	0 0%	0 9%	100 0%	52 1%	3 6%	2 9%	0 0%	44 1%
15 Arab Land Bank	20 7%	28 4%	13 0%	5 1%	79 3%	64 0%	7 8%	2 8%	0 0%	7 7%
16 Jordan National Bank	0 0%	8 6%	0 0%	1 3%	0 0%	74 8%	0 0%	2 8%	0 0%	16 7%
18 Arab Jordan Inv Bank	0 0%	10 5%	0 0%	1 4%	100 0%	42 8%	4 8%	1 4%	0 0%	46 7%
19 ANZ Grindlays Bank	0 0%	21 0%	0 0%	1 1%	0 0%	79 0%	0 0%	1 0%	0 0%	0 0%
21 British Bank	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
22 Export and Finance Bank	0 0%	0 0%	0 0%	0 0%	0 0%	49 1%	0 0%	2 5%	0 0%	50 9%
26 Cario Amman (public cars)	0 0%	51 3%	0 0%	4 4%	0 0%	48 7%	0 0%	1 0%	0 0%	0 0%
63 Housing Union Bank	0 0%	5 3%	0 0%	2 0%	0 0%	65 5%	0 0%	6 2%	0 0%	29 2%
66 Housing Cario Amman Bank	0 0%	8 0%	0 0%	1 5%	0 0%	59 5%	0 0%	2 8%	0 0%	32 5%
67 Housing ABC/Jordan	0 0%	2 3%	0 0%	0 6%	0 0%	47 7%	0 0%	3 2%	0 0%	50 0%
68 Housing Housing Jordan Bank	0 0%	12 8%	0 0%	1 2%	0 0%	62 8%	0 0%	1 5%	0 0%	24 3%
74 Housing Arab Bank PLC	0 0%	3 9%	0 0%	0 4%	0 0%	53 7%	0 0%	1 4%	0 0%	42 4%
75 Housing Arab Land Bank	0 0%	3 3%	0 0%	0 3%	0 0%	84 6%	0 0%	2 2%	0 0%	12 1%
76 Housing Jordan National Bank	0 0%	10 5%	0 0%	0 7%	0 0%	57 4%	0 0%	0 9%	0 0%	32 1%
78 Housing Arab Jordan Inv Bank	0 0%	7 7%	0 0%	0 5%	0 0%	72 9%	0 0%	1 1%	0 0%	19 4%
<b>Totals</b>			<b>12 7%</b>	<b>15 1%</b>			<b>81 4%</b>	<b>60 9%</b>		

Loan Term

Bank Name	Less than 1 Year				1 3 Years				3 5 Years		
	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks
2 Housing Bank	0 7%	1 5%	5 9%	5 1%	15 3%	12 5%	22 2%	10 4%	57 7%	70 8%	33 1%
3 Union Bank	0 0%	9 0%	0 0%	2 9%	0 0%	80 1%	0 0%	6 2%	100 0%	10 9%	10 3%
4 Amman Bank for Investment	0 0%	0 0%	0 0%	0 0%	0 0%	39 8%	0 0%	0 6%	0 0%	60 2%	0 0%
5 Industrial Development Bank	0 0%	5 4%	0 0%	11 7%	0 0%	21 7%	0 0%	11 4%	100 0%	5 2%	1 7%
6 Cairo Amman Bank	0 0%	0 0%	0 0%	0 0%	8 8%	30 1%	4 4%	1 8%	51 3%	54 7%	10 0%
7 ABC/Jordan	0 0%	16 7%	0 0%	14 9%	100 0%	53 0%	2 0%	11 5%	0 0%	30 2%	0 0%
8 Bank of Jordan	0 0%	5 4%	0 0%	1 6%	100 0%	76 4%	12 0%	5 4%	0 0%	16 6%	0 0%
9 Jordan Gulf Bank	9 7%	2 0%	23 5%	0 5%	39 8%	63 1%	17 9%	3 6%	50 5%	35 0%	8 9%
10 Jordan Kuwait Bank	0 0%	3 9%	0 0%	2 8%	28 8%	57 3%	10 9%	9 9%	71 2%	37 4%	10 6%
11 Philadelphia Inv Bank	0 0%	0 0%	0 0%	0 0%	100 0%	100 0%	5 2%	0 6%	0 0%	0 0%	0 0%
12 Jordan Inv and Fin Bank	0 0%	0 0%	0 0%	0 0%	0 0%	34 9%	0 0%	0 8%	50 0%	46 5%	6 9%
13 Middle East Inv Bank	0 0%	9 1%	0 0%	2 5%	31 0%	85 9%	5 9%	5 8%	69 0%	5 0%	5 2%
14 Arab Bank PLC	100 0%	58 0%	70 6%	26 5%	0 0%	37 6%	0 0%	4 2%	0 0%	4 5%	0 0%
15 Arab Land Bank	0 0%	5 8%	0 0%	2 1%	6 1%	36 8%	2 2%	3 3%	93 9%	55 9%	13 2%
16 Jordan National Bank	0 0%	11 3%	0 0%	3 5%	0 0%	41 3%	0 0%	3 1%	0 0%	38 2%	0 0%
18 Arab Jordan Inv Bank	0 0%	7 0%	0 0%	1 9%	100 0%	74 8%	17 4%	4 8%	0 0%	18 2%	0 0%
19 ANZ Grindlays Bank	0 0%	8 0%	0 0%	0 9%	0 0%	79 0%	0 0%	2 1%	0 0%	13 0%	0 0%
21 British Bank	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
22 Export and Finance Bank	0 0%	21 0%	0 0%	8 8%	0 0%	23 3%	0 0%	2 4%	0 0%	55 7%	0 0%
26 Cario Amman (public cars)	0 0%	4 9%	0 0%	0 9%	0 0%	25 8%	0 0%	1 1%	0 0%	69 2%	0 0%
63 Housing Union Bank	0 0%	2 4%	0 0%	1 9%	0 0%	14 7%	0 0%	2 7%	0 0%	26 8%	0 0%
66 Housing Cario Amman Bank	0 0%	19 3%	0 0%	7 5%	0 0%	4 2%	0 0%	0 4%	0 0%	19 7%	0 0%
67 Housing ABC/Jordan	0 0%	6 3%	0 0%	3 5%	0 0%	19 7%	0 0%	2 7%	0 0%	55 8%	0 0%
68 Housing Housing Jordan Bank	0 0%	0 0%	0 0%	0 0%	0 0%	23 1%	0 0%	1 1%	0 0%	42 1%	0 0%
74 Housing Arab Bank PLC	0 0%	0 0%	0 0%	0 0%	0 0%	48 6%	0 0%	2 5%	0 0%	38 0%	0 0%
75 Housing Arab Land Bank	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	20 8%	0 0%
76 Housing Jordan National Bank	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	17 5%	0 0%
78 Housing Arab Jordan Inv Bank	0 0%	5 8%	0 0%	0 7%	0 0%	58 5%	0 0%	1 7%	0 0%	35 7%	0 0%
<b>Totals</b>			<b>4 1%</b>	<b>7 5%</b>			<b>22 4%</b>	<b>30 6%</b>			<b>56 7%</b>

Bank Name	Industrial				Agricultural				Serv	
	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank
2 Housing Bank	21.5%	9.4%	20.0%	13.7%	0.0%	1.4%	0.0%	14.6%	28.2%	18.1%
3 Union Bank	0.0%	5.4%	0.0%	0.7%	0.0%	0.0%	0.0%	0.0%	100.0%	35.8%
4 Amman Bank for Investment	0.0%	0.0%	0.0%	0.0%	0.0%	15.5%	0.0%	2.7%	0.0%	55.8%
5 Industrial Development Bank	43.6%	43.7%	6.1%	40.1%	0.0%	0.0%	0.0%	0.0%	56.4%	21.6%
6 Cairo Amman Bank	21.5%	9.5%	12.8%	1.0%	0.0%	16.2%	0.0%	11.8%	0.0%	21.2%
7 ABC/Jordan	0.0%	39.8%	0.0%	15.0%	0.0%	6.5%	0.0%	17.4%	100.0%	17.4%
8 Bank of Jordan	21.5%	5.1%	1.9%	0.6%	0.0%	7.2%	0.0%	6.3%	0.0%	33.8%
9 Jordan Gulf Bank	35.0%	40.6%	9.2%	4.1%	0.0%	2.9%	0.0%	2.1%	35.0%	27.3%
10 Jordan Kuwait Bank	16.0%	16.3%	10.2%	4.9%	0.0%	0.7%	0.0%	1.6%	0.0%	25.9%
11 Philadelphia Inv Bank	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
12 Jordan Inv and Fin Bank	50.0%	60.5%	10.2%	2.6%	50.0%	18.6%	53.3%	5.6%	0.0%	0.0%
13 Middle East Inv Bank	0.0%	1.8%	0.0%	0.2%	23.0%	1.7%	13.3%	1.4%	0.0%	4.9%
14 Arab Bank PLC	100.0%	29.8%	7.7%	5.8%	0.0%	0.0%	0.0%	0.0%	0.0%	17.7%
15 Arab Land Bank	55.1%	8.8%	11.7%	1.4%	30.5%	4.5%	53.3%	4.9%	0.0%	21.8%
16 Jordan National Bank	0.0%	12.9%	0.0%	1.7%	0.0%	30.3%	0.0%	27.8%	0.0%	26.8%
18 Arab Jordan Inv Bank	100.0%	12.3%	10.2%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	12.3%
19 ANZ Grindlays Bank	0.0%	17.4%	0.0%	0.8%	0.0%	12.1%	0.0%	3.9%	0.0%	19.9%
21 British Bank	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
22 Export and Finance Bank	0.0%	34.9%	0.0%	6.2%	0.0%	0.0%	0.0%	0.0%	0.0%	17.7%
26 Cairo Amman (public cars)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
63 Housing Union Bank	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
66 Housing Cairo Amman Bank	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
67 Housing ABC/Jordan	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
68 Housing Housing Jordan Bank	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
74 Housing Arab Bank PLC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
75 Housing Arab Land Bank	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
76 Housing Jordan National Bank	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
78 Housing Arab Jordan Inv Bank	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Totals</b>			<b>38.2%</b>	<b>17.6%</b>			<b>7.3%</b>	<b>2.5%</b>		

= Individual bank's default rate is between 1 and 10% more than the percentage of business in that area  
 = Individual bank's default rate is greater than 10% more than the percentage of business in that area  
 = Claims rate over 3.5%

**Size of Company**

Bank Name	1-5 Employees				6-25 Employees			
	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks
2 Housing Bank	56 2%	71 5%	41 9%	28 4%	43 8%	25 6%	29 6%	24 6%
3 Union Bank	100 0%	65 1%	13 4%	2 4%	0 0%	34 9%	0 0%	3 1%
4 Amman Bank for Investment	0 0%	76 1%	0 0%	0 5%	0 0%	23 9%	0 0%	0 4%
5 Industrial Development Bank	74 5%	41 3%	9 2%	10 3%	25 5%	38 8%	2 8%	23 5%
6 Cairo Amman Bank	0 0%	51 7%	0 0%	1 5%	100 0%	46 4%	11 8%	3 2%
7 ABC/Jordan	31 0%	23 2%	1 0%	2 4%	0 0%	50 4%	0 0%	12 5%
8 Bank of Jordan	0 0%	40 6%	0 0%	1 4%	100 0%	35 5%	5 6%	2 9%
9 Jordan Gulf Bank	55 2%	49 3%	8 3%	1 3%	44 8%	24 0%	6 1%	1 6%
10 Jordan Kuwait Bank	46 3%	70 2%	12 7%	5 8%	24 4%	28 8%	6 1%	5 7%
11 Philadelphia Inv Bank	0 0%	0 0%	0 0%	0 0%	100 0%	100 0%	2 4%	0 7%
12 Jordan Inv and Fin Bank	0 0%	20 9%	0 0%	0 2%	100 0%	65 1%	16 2%	1 8%
13 Middle East Inv Bank	100 0%	80 8%	9 7%	2 6%	0 0%	15 9%	0 0%	1 2%
14 Arab Bank PLC	0 0%	28 7%	0 0%	1 5%	100 0%	33 3%	6 1%	4 3%
15 Arab Land Bank	20 7%	74 4%	3 8%	3 1%	79 3%	25 6%	13 2%	2 6%
16 Jordan National Bank	0 0%	60 3%	0 0%	2 1%	0 0%	39 7%	0 0%	3 4%
18 Arab Jordan Inv Bank	0 0%	70 1%	0 0%	2 1%	0 0%	22 9%	0 0%	1 7%
19 ANZ Grindlays Bank	0 0%	69 2%	0 0%	0 9%	0 0%	30 8%	0 0%	0 9%
21 British Bank	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
22 Export and Finance Bank	0 0%	33 0%	0 0%	1 6%	0 0%	48 7%	0 0%	5 7%
26 Cario Amman (public cars)	0 0%	100 0%	0 0%	2 0%	0 0%	0 0%	0 0%	0 0%
63 Housing - Union Bank	0 0%	100 0%	0 0%	8 9%	0 0%	0 0%	0 0%	0 0%
66 Housing - Cario Amman Bank	0 0%	100 0%	0 0%	4 5%	0 0%	0 0%	0 0%	0 0%
67 Housing - ABC/Jordan	0 0%	100 0%	0 0%	6 4%	0 0%	0 0%	0 0%	0 0%
68 Housing - Housing Jordan Bank	0 0%	100 0%	0 0%	2 2%	0 0%	0 0%	0 0%	0 0%
74 Housing - Arab Bank PLC	0 0%	96 9%	0 0%	2 3%	0 0%	3 1%	0 0%	0 2%
75 Housing - Arab Land Bank	0 0%	100 0%	0 0%	2 5%	0 0%	0 0%	0 0%	0 0%
76 Housing - Jordan National Bank	0 0%	100 0%	0 0%	1 5%	0 0%	0 0%	0 0%	0 0%
78 Housing - Arab Jordan Inv Bank	0 0%	100 0%	0 0%	1 4%	0 0%	0 0%	0 0%	0 0%
<b>Totals</b>			<b>43 6%</b>	<b>64 4%</b>			<b>48 0%</b>	<b>26 7%</b>

## Loan Usage

Bank Name	New				Expansion			
	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks	Defaults % of Total w/in Bank	Total Loans % of Total w/in Bank	Defaults % of Total all Banks	Total Loans % of Total all Banks
2 Housing Bank	58 9%	74 5%	59 7%	33 3%	34 3%	14 8%	29 9%	18 8%
3 Union Bank	0 0%	56 4%	0 0%	2 4%	0 0%	8 8%	0 0%	1 0%
4 Amman Bank for Investment	0 0%	28 7%	0 0%	0 2%	0 0%	65 3%	0 0%	1 4%
5 Industrial Development Bank	25 5%	46 8%	4 3%	13 2%	56 4%	26 9%	8 1%	21 6%
6 Cairo Amman Bank	26 5%	33 9%	5 5%	1 1%	0 0%	31 6%	0 0%	2 8%
7 ABC/Jordan	0 0%	18 2%	0 0%	2 1%	100 0%	41 6%	1 2%	13 7%
8 Bank of Jordan	0 0%	39 6%	0 0%	1 5%	100 0%	35 1%	7 2%	3 8%
9 Jordan Gulf Bank	15 5%	14 5%	4 9%	0 4%	38 8%	45 8%	10 4%	4 0%
10 Jordan Kuwait Bank	54 0%	55 8%	14 2%	5 2%	0 0%	29 9%	0 0%	7 9%
11 Philadelphia Inv Bank	100 0%	23 1%	3 6%	0 1%	0 0%	76 9%	0 0%	0 7%
12 Jordan Inv and Fin Bank	0 0%	0 0%	0 0%	0 0%	100 0%	65 1%	20 9%	2 4%
13 Middle East Inv Bank	46 0%	64 7%	6 1%	2 3%	23 0%	13 2%	2 6%	1 4%
14 Arab Bank PLC	0 0%	13 0%	0 0%	0 8%	0 0%	15 7%	0 0%	2 7%
15 Arab Land Bank	7 3%	42 7%	1 8%	2 0%	92 7%	36 0%	19 8%	4 8%
16 Jordan National Bank	0 0%	41 8%	0 0%	1 7%	0 0%	46 2%	0 0%	5 2%
18 Arab Jordan Inv Bank	0 0%	52 0%	0 0%	1 8%	0 0%	6 2%	0 0%	0 6%
19 ANZ Grindlays Bank	0 0%	23 9%	0 0%	0 3%	0 0%	40 6%	0 0%	1 6%
21 British Bank	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
22 Export and Finance Bank	0 0%	3 3%	0 0%	0 2%	0 0%	11 1%	0 0%	1 7%
26 Cario Amman (public cars)	0 0%	90 6%	0 0%	2 1%	0 0%	0 0%	0 0%	0 0%
63 Housing - Union Bank	0 0%	92 6%	0 0%	9 3%	0 0%	1 2%	0 0%	0 3%
66 Housing - Cario Amman Bank	0 0%	85 2%	0 0%	4 3%	0 0%	0 0%	0 0%	0 0%
67 Housing - ABC/Jordan	0 0%	92 1%	0 0%	6 7%	0 0%	5 4%	0 0%	1 1%
68 Housing - Housing Jordan Bank	0 0%	71 3%	0 0%	1 8%	0 0%	18 6%	0 0%	1 3%
74 Housing - Arab Bank PLC	0 0%	76 9%	0 0%	2 1%	0 0%	0 0%	0 0%	0 0%
75 Housing - Arab Land Bank	0 0%	82 2%	0 0%	2 3%	0 0%	6 5%	0 0%	0 5%
76 Housing - Jordan National Bank	0 0%	93 0%	0 0%	1 6%	0 0%	7 0%	0 0%	0 3%
78 Housing - Arab Jordan Inv Bank	0 0%	84 5%	0 0%	1 3%	0 0%	3 9%	0 0%	0 2%
<b>Totals</b>			<b>32 1%</b>	<b>57 2%</b>			<b>37 4%</b>	<b>20 1%</b>

## VIII FINANCIAL MODEL FOR FUTURE PRICING

A financial model was developed by Mr Sean Berg, another consultant to JLGC, with FWA advice and assistance. This model is a tool to be used by the JLGC in making future pricing decisions. The model generates detailed information on the income statement and balance sheets effects of changes in key variables, including Change in Volume of Business, Change in Ceiling Volume, Change in Expenses, Change in Invested Capital Interest Rate, Increase/(Decline) in Investments, Change in Claims Experience, Change in Recovery Rate, and Application Fee. The model is on a diskette which has been given to JLGC and runs on EXCEL.

The financial model is broken into two parts: one covering pre-shipment and post-shipment export credit guarantees and one for domestic loan guarantees. Detailed operational and financial projections are generated for each year from 1998 through 2001.

Base case projections generated by the model are shown on the next 8 pages. By changing one or more of the key variables, entirely new projections are generated which carry their own pricing implications. The most important indices to monitor, of course, are the total amount of loans (indicating achievement of national interest objectives) and net income before taxes (indicating financial viability of JLGC). Both are crucial in determining the appropriate level of premiums.

As presented herein, the financial model is a powerful tool to assist in pricing policy and many other aspects of management decision making. By changing any or all of the variables, one can see on a real-time basis the impact on the future of JLGC, and management can take steps in advance of need to influence future directions of the company.

MODEL

Scenario Analysis									
Financial Model for JLGC Export Credit Guarantee Program (presented in Jordanian Dinars)									
	1998		1999		2000		2001		
	Rate/	Amount	Rate/	Amount	Rate/	Amount	Rate/	Amount	
	Growth Rate		Growth Rate		Growth Rate		Growth Rate		
Scenario									
Change in Volume of Business	0%								
Change in Ceiling Volume	0%								
Change in Expenses	0%								
Change in Invested Capital Interest Rate	0%								
Increase/Decline in Investments	0%								
Change in Claims Experience	0%								
Change in Recovery Rate	0%								
Application Fee	0 00%								
Level of Business									
Line #	Preshipment Export Credit Guarantee								
1	Total Amount of Loans		1 333 296	352 3%	6 030 000	20 0%	7 236 000	20 0%	8 683 200
2	Average Size of Loan (Executed and Under Execution)		74 072	9 5%	67 000	0 0%	67 000	0 0%	67 000
3	Number of Loans (Executed and Under Execution)		18	400 0%	90	20 0%	108	20 4%	130
4	Average Loan Period (% of Year # of days)	28 4%	104	27 8%	100	27 8%	100	27 8%	100
5	Guarantee Percentage Total Guaranteed Amount	75 0%	999 972	75 0%	4 522 500	75 0%	5 427 000	75 0%	6 512 400
6	Average Portfolio (Annualized Basis)		284 000		1 256 250		1 507 500		1 809 000
7	Average Premium Rate Total Premium Income	0 43%	4 260	0 42%	18 844	0 42%	22 613	0 42%	27 135
8	Application Fee	0 00%	-	0 00%	-	0 00%	-	0 00%	-
9	Effective Premium Rate Total Premium Income	1 50%	4 260	1 50%	18 844	1 50%	22 613	1 50%	27 135
	Postshipment Export Credit Guarantee								
10	Average Size of Contract (Executed and Under Execution)		766 200	233 5%	2 555 556	0 0%	2 555 556	0 0%	2 555 556
11	Number of Contracts (Executed and Under Execution)		5	80 0%	9	22 2%	11	27 3%	14
12	Total Amount of Exports		3 831 000	500 4%	23 000 004	22 2%	28 111 116	27 3%	35 777 784
13	Guarantee Percentage Amount ( 85% Guarantee x 20% Share)	17 0%	651 270	17 0%	3 910 001	17 0%	4 778 890	17 0%	6 082 223
14	Total Premium Rate Total Premium (85% Guarantee JLGC and Coface share)	0 57%	18 640	0 66%	129 030	0 78%	185 899	0 78%	236 598
15	Average Premium Rate Total Premium (Including Commission)	1 31%	8 500	1 50%	58 838	1 77%	84 398	1 77%	107 416
16	Application Fee	0 00%	-	0 00%	-	0 00%	-	0 00%	-
17	Effective Premium Rate Total Premium Income	1 31%	8 500	1 50%	58 838	1 77%	84 398	1 77%	107 416

Scenario Analysis									
Financial Model for JLGC Export Credit Guarantee Program (presented in Jordanian Dinars)									
		1998		1999		2000		2001	
		Rate/	Amount	Rate/	Amount	Rate/	Amount	Rate/	Amount
		Growth Rate		Growth Rate		Growth Rate		Growth Rate	
	Total Guarantees								
18	Total Average Guarantee Exposure		935 270	452 4%	5 166 251	21 7%	6 286 390	25 5%	7 891 223
19	Total Fee Income		12 760	508 8%	77 681	37 8%	107 011	25 7%	134 551
	Capital								
29	Capital (end year)		4 165 090		4 741 251		5 424 776		6 231 177
30	Investment Income on Capital	9 97%	395 574	9 00%	374 858	9 00%	426 713	9 00%	488 230
31	Percentage of Total JLGC Capital	37%	11 257 000	37%	12 814 192	37%	14 661 556	37%	16 841 018
	Claims								
	Pre shipment program								
32	Gross Claims/Rate	0 0%		1 5%	67 838	1 5%	81 405	1 5%	97 686
33	Recovery Rate (lagged one year)	80%		80 0%		80 0%	54 270	80 0%	65 124
34	Net Claims	0 00%		0 30%	67 838	0 30%	27 135	0 30%	32 562
	Post shipment program								
32	Gross Claims/Rate	0 0%		2 0%	78 200	2 0%	95 578	2 0%	121 644
33	Recovery Rate (lagged one year)	50%		50%		50%	39 100	50%	47 789
34	Net Claims	0 00%		1 00%	78 200	1 00%	56 478	1 00%	73 856
35	Total Net Claims				146 038		83 613		106 418
	Expenses								
36	Staff Level Expense		96 973	27 8%	123 931	10 0%	136 324	10 0%	149 956
37	General Overhead Expense		66 488	11 6%	74 200	5 0%	77 910	5 0%	81 806
38	Marketing Costs		5 507	62 4%	8 943	11 0%	9 927	20 0%	11 912
39	Training Costs		13 461	51 0%	20 327	0 0%	20 327	0 0%	20 327
40	Total Expenses		182 428	24 7%	227 401	7 5%	244 488	8 0%	264 001
	Provisioning								
41	Guarantee Provision – Pre shipment Guarantee (40% of fee income)		1 704	342 3%	7 538	20 0%	9 045	20 0%	10 854
42	Guarantee Provision – Post shipment Guarantee (27 7% including commission)		2 354	592 4%	16 298	43 4%	23 378	27 3%	29 754
43	Total Guarantee Provision		4 058	487 4%	23 836	36 0%	32 423	25 2%	40 608
44	Provision for Increase (Decline) in Investments		(64 565)						
45	Total Fee Revenue		12 760	508 8%	77 681	37 8%	107 011	25 7%	134 551
46	Total Interest Revenue		395 574	5 2%	374 858	13 8%	426 713	14 4%	488 230

Scenario Analysis									
Financial Model for JLGC Export Credit Guarantee Program (presented in Jordanian Dinars)									
		1998		1999		2000		2001	
		Rate/	Amount	Rate/	Amount	Rate/	Amount	Rate/	Amount
		Growth Rate		Growth Rate		Growth Rate		Growth Rate	
47	Net Income before Taxes		286 413	29 7%	201 303	27 6%	256 812	23 9%	318 171
48	Distributions								-
49	Retained Earnings		286 413	29 7%	201 303	27 6%	256 812	23 9%	318 171
50	Guarantee Assigned Capacity		20 825 450		23 706 256		27 123 878		31 155 884
51	Cumulative Loan Guarantee Provision		4 058	3011 4%	(118 144)	43 3%	(169 333)	38 9%	(235 143)
52	Average Number of Employees		6 6	9 1%	7 2	38 9%	10	0 0%	10
53	Fee/Exposure	1 4%		1 5%		1 7%		1 7%	
54	Fee/Expenses	7 0%		34 2%		43 8%		51 0%	
55	Fee/Expenses + Provisioning	3 8%		19 5%		23 3%		25 4%	
56	Cumulative Loan Gty Provisioning/Outstanding Gty Exposure	0 4%		2 3%		2 7%		3 0%	
57	Guarantee Provision/Net Claims	0 0%		16 3%		38 8%		38 2%	
58	(Total Exp + Provisioning Gty Fees)/Earnings on Invested Capital	27 6%		46 3%		39 8%		34 8%	
60	Total Outstanding Guarantees Committed to Equity	0 22		1 09		1 16		1 27	
61	Average Guarantee Outstanding per Employee		141 708	406 3%	717 535	12 4%	628 639	25 5%	789 122
62	Average Guarantee Fee per Employee		1 933	458 1%	10 789	0 8%	10 701	25 7%	13 455
63	Average Total Revenue per Employee		61 869	1 6%	62 853	15 1%	53 372	16 7%	62 278

Scenario Analysis									
Financial Model for JLGC Domestic Loan Guarantee Program (presented in Jordanian Dinars)									

		1998		1999		2000		2001	
		Rate/	Amount	Rate/	Amount	Rate/	Amount	Rate/	Amount
		Growth Rate		Growth Rate		Growth Rate		Growth Rate	
Scenario									
	Change in Volume of Business	0%							
	Change in Ceiling Volume	0%							
	Change in Expenses	0%							
	Change in Invested Capital Interest Rate	0%							
	Increase/(Decline) in Investments	0%							
	Change in Claims Experience	0%							
	Change in Recovery Rate	0%							
	Application Fee	0 00%							
	Level of Business								
Line #	Productive Sector Guarantees								
1	Total Amount of Loans		8 493 888	23 7%	6 480 000	26 7%	8 208 000	26 2%	10 360 000
2	Average Size of Loan (Executed and Under Execution)		17 056	5 5%	18 000	5 6%	19 000	5 3%	20 000
3	Average Number of Loans (Executed and Under Execution)		498	27 7%	360	20 0%	432	19 9%	518
4	Average Guarantee Ceiling		11 160 000	14 3%	12 760 000	15 2%	14 705 000	10 5%	16 250 000
5	End Year Guarantee Ceiling		11 610 000	19 8%	13 910 000	11 4%	15 500 000	9 7%	17 000 000
6	Total Utilized Ceiling to date (projected usage rate)	81 9%	9 507 326	70 8%	9 852 095	69 9%	10 836 431	73 4%	12 478 523
7	Avg Premium Rate Tot Premium Income (projected rate increases)	1 50%	167 400	14 3%	191 400	15 2%	220 575	10 5%	243 750
8	Application Fee	0 00%		0 00%		0 00%	-	0 00%	-
9	Effective Premium Rate Total Premium Income	1 76%	167 400	1 94%	191 400	2 04%	220 575	1 95%	243 750
10	Average Guarantee Percentage Amount (Current Year)	60 0%	5 096 333	60 0%	3 888 000	60 0%	4 924 800	60 0%	6 216 000
	Housing Loan Guarantees								
11	Total Amount of Loans		3 908 016	135 4%	9 200 000	30 4%	12 000 000	33 3%	16 000 000
12	Average Size of Loan (Executed and Under Execution)		23 262	14 0%	20 000	0 0%	20 000	0 0%	20 000
13	Number of Loans (Executed and Under Execution)			173 8%	460	30 4%	600	33 3%	800

Scenario Analysis									
Financial Model for JLGC Domestic Loan Guarantee Program (presented in Jordanian Dinars)									
		1998		1999		2000		2001	
		Rate/	Amount	Rate/	Amount	Rate/	Amount	Rate/	Amount
		Growth Rate		Growth Rate		Growth Rate		Growth Rate	
			168						
14	Average Guarantee Ceiling		5 826 667	108 3%	12 135 000	2 5%	12 437 500	24 6%	15 500 000
15	End Year Guarantee Ceiling		12 395 000	4 2%	11 875 000	9 5%	13 000 000	38 5%	18 000 000
16	Total Utilized Ceiling to date (projected usage rate)	21 7%	2 690 187	57 2%	6 794 659	89 7%	11 655 460	98 6%	17 747 141
17	Avg Premium Rate Tot Premium Income (projected rate increases)	0 75%	43 700	108 3%	91 013	2 5%	93 281	24 6%	116 250
18	Application Fee	0 00%		0 00%		0 00%		0 00%	-
19	Effective Premium Rate Total Premium Income	1 62%	43 700	1 34%	91 013	0 80%	93 281	0 66%	116 250
20	Average Guarantee Percentage Amount (Current Year)	70 0%	2 735 611	70 0%	6 440 000	70 0%	8 400 000	70 0%	11 200 000
	Total Guarantees								
21	Average Guarantee Ceiling		16 986 667	46 6%	24 895 000	9 0%	27 142 500	17 0%	31 750 000
22	End Year Guarantee Ceiling		24 005 000	7 4%	25 785 000	10 5%	28 500 000	22 8%	35 000 000
23	Total Utilized Ceiling to date (projected usage rate)	50 8%	12 197 513	64 6%	16 646 753	78 9%	22 491 891	86 4%	30 225 664
24	Average Premium Rate Total Premium Income	1 2%	211 100	1 1%	282 413	1 2%	313 856	1 1%	360 000
25	Application Fee	0 0%		0 0%		0 0%		0 0%	
26	Effective Premium Rate Total Premium Income	1 73%	211 100	1 70%	282 413	1 40%	313 856	1 19%	360 000
27	Average Guarantee Percentage Amount (Current Year)	63 2%	7 831 944	65 9%	10 328 000	65 9%	13 324 800	66 1%	17 416 000
	Counseling Services Unit								
28	Counseling Revenue		3 943	45 3%	5 730	11 7%	6 400	32 8%	8 500
	Capital								
29	Capital (end year)		7 091 910		8 039 279		9 091 996		10 258 096
30	Investment Income on Capital	9 97%	673 546	9 00%	638 272	9 00%	723 535	9 00%	818 280

Scenario Analysis									
Financial Model for JLGC Domestic Loan Guarantee Program (presented in Jordanian Dinars)									
		1998		1999		2000		2001	
		Rate/	Amount	Rate/	Amount	Rate/	Amount	Rate/	Amount
		Growth Rate		Growth Rate		Growth Rate		Growth Rate	
31	Percentage of Total JLGC Capital	63%	11 257 000	63%	12 760 761	63%	14 431 740	63%	16 282 691
	Claims								
32	Gross Claims/Rate	3 40%	266 512	3 39%	350 119	3 00%	399 744	2 58%	449 333
33	Recovery Rate	40 0%	106 657	42 9%	150 201	50 0%	199 872	60 0%	269 600
34	Net Claims	2 04%	159 855	1 94%	199 918	1 50%	199 872	1 03%	179 733
	Expenses								
36	Staff Level Expense		165 115	26 6%	209 036	10 0%	229 940	10 0%	252 934
37	General Overhead Expense		113 208	16 5%	131 888	5 0%	138 482	5 0%	145 406
38	Marketing Costs		9 376	60 6%	15 058	0 0%	15 058	0 0%	15 058
39	Training Costs		22 921	69 6%	38 873	0 0%	38 873	0 0%	38 873
40	Total Expenses		310 621	27 1%	394 855	7 0%	422 353	7 1%	452 271
	Provisioning								
43	Guarantee Provision		241 290	7 8%	222 462	31 4%	292 257	32 3%	386 689
44	Provision for Increase (Decline) in Investments		(109 936)						
45	Total Fee Revenue		215 043	34 0%	288 143	11 1%	320 256	15 1%	368 500
46	Total Interest Revenue		673 546	5 2%	638 272	13 4%	723 535	13 1%	818 280
47	Net Income before Taxes		226 742	36 3%	309 097	6 5%	329 182	5 7%	347 820
48	Distributions								

Scenario Analysis									
Financial Model for JLGC Domestic Loan Guarantee Program (presented in Jordanian Dinars)									
		1998		1999		2000		2001	
		Rate/	Amount	Rate/	Amount	Rate/	Amount	Rate/	Amount
		Growth Rate		Growth Rate		Growth Rate		Growth Rate	
49	Retained Earnings		226 742	36 3%	309 097	6 5%	329 182	5 7%	347 820
50	Guarantee Assigned Capacity		35 459 550		40 196 396		45 459 980		51 290 478
51	Cumulative Loan Guarantee Provision		1 797 486	1 3%	1 820 030	5 1%	1 912 415	10 8%	2 119 370
52	Average Number of Employees		17 4	1 1%	17 6	2 3%	18	0 0%	18
53	Fee/Exposure	2 7%		2 8%		2 4%		2 1%	
54	Fee/Expenses	69 2%		73 0%		75 8%		81 5%	
55	Fee/Expenses + Provisioning	48 7%		46 7%		44 8%		43 9%	
56	Cumulative Loan Gty Provisioning/Outstanding Gty Exposure	14 7%		10 9%		8 5%		7 0%	
57	Guarantee Provision/Net Claims	150 9%		111 3%		146 2%		215 1%	
58	(Total Exp + Provisioning Gty Fees)/Earnings on Invested Capital	33 7%		51 6%		54 5%		57 5%	
59	Average Utilized Guarantees Committed to Equity	1 72		2 07		2 47		2 95	
60	Total Outstanding Guarantees Committed to Equity	2 40		3 10		2 99		3 10	
61	Average Guarantee Outstanding per Employee		976 245	44 9%	1 414 489	6 6%	1 507 917	17 0%	1 763 889
62	Average Guarantee Fee per Employee		12 359	32 5%	16 372	8 7%	17 792	15 1%	20 472
63	Average Total Revenue per Employee		51 068	3 1%	52 637	10 2%	57 988	13 7%	65 932

## IX RECOMMENDATIONS FOR DLG AND PSG FEES

- 1 JLGC should impose a flat fee of JD50 for all applications under DLG and PSG programs, to help cover processing costs. This fee would be paid by borrowers to the banks, which would in turn pay it to JLGC. This is in line with standard practice at many ECAs and other credit guarantee organizations. It is estimated that the flat fee would increase JLGC's net income by 2.5% in 1999 and 2.3% in 2000.
- 2 JLGC should change the PSG guarantee fee from 1.5% per annum on the amount of the guarantee to 1.4% per annum on the amount of the loan. This would increase fee income from PSG by almost 25% and would make JLGC's fee equal to the average working capital guarantee fee charged by the other agencies studied.
- 3 For borrowers utilizing both PSG and ECG post-shipment programs at the same time, JLGC should offer a 25% discount in the PSG guarantee fee to account for the extra revenue to JLGC and the lower chances of loss under PSG stemming from coverage of the borrower's overseas accounts receivable.
- 4 After the first year, and for up to 5 years thereafter in which JLGC has satisfactory experience with a guaranteed borrower, JLGC should offer a 5% discount in the PSG guarantee fee to encourage ongoing program usage by proven good credit risks.
- 5 JLGC should maintain its current policy of charging uniform fees on all sizes of loan. In effect, this will assure that bigger loans (which have lower defaults) help to support smaller loans.
- 6 JLGC should maintain its current policy of charging uniform fees on a per annum basis, regardless of the term of the loan. This will assure that some encouragement is given to longer term finance, which has economic benefits for the country (even though default rates are higher).
- 7 JLGC should maintain its current policy of charging uniform fees to borrowers in both industrial and agricultural sectors. Statistics indicating lower defaults from agriculture may be flawed by the relatively small number of cases involved.
- 8 JLGC should maintain its current policy of charging uniform fees on all size companies. Default rates are similar for the different size companies studied.
- 9 JLGC should maintain its current policy of charging uniform fees, regardless of the purpose of the loan (new investments or expansions of old investments). Default rates are similar for both types of loans.
- 10 JLGC should maintain its current policy of charging uniform fees, regardless of the location of the borrower within Jordan. Default rates are similar for firms inside and outside

Amman

- 11 JLGC should maintain its current policy of charging uniform fees, regardless of the financing bank. In lieu of fee increases, JLGC should initiate improved underwriting procedures for banks with high default rates and, if experience does not improve, should consider de-certification of individual banks.
- 12 JLGC should review DLG and PSG fees on an annual basis, but try to avoid making adjustments more frequently than every 3-5 years. Stability and continuity of fee pricing policies will support marketing efforts and sustain profitable operations for JLGC over the long-term.

**X RECOMMENDATION FOR POST-SHIPMENT PREMIUMS**

FWA makes the following recommendations

- 1 JLGC should pass on to exporters COFACE’s charges for credit limit opinions issued in conjunction with the ECG post-shipment insurance program
- 2 JLGC should offer applicants their choice of political-only, commercial-only, or comprehensive cover This would have to be negotiated with COFACE and any other coinsurer or reinsurer that JLGC might work with
- 3 For simplicity and in order to encourage the use of comprehensive cover, political-only or commercial-only premiums should each be 60% of comprehensive premiums However, under the COFACE arrangement, alternative formulas may have to be followed
- 4 With reference to comprehensive coverage premiums, in the event that JLGC decides to underwrite transactions for its own account without COFACE insurance, FWA suggests that JLGC apply rates based upon a modification of the new OECD agreement on minimum premiums These take into account the “actuarial” experience of a majority of the world’s export credit insurers in dealing with export credit transactions of varying risk and are designed to cover all related expenses and claims
- 5 The OECD minimum premium should be modified to take into account the fact that JLGC would be covering short, rather than medium-term, transactions This is done in the table below, based upon 85% or 75% coverage for exports to each of 7 country risk categories (from Abest to Aworst risk countries)

**SUGGESTED POST-SHIPMENT PREMIUM RATES  
(up to six months)**

% Cover	COUNTRY RISK CATEGORY						
	1	2	3	4	5	6	7
85%	67	1 32	2 20	3 24	4 37	5 43	6 57
75%	59	1 17	1 94	2 86	3 86	4 79	5 80

- 6 The risk categories assigned to each country by a major OECD credit insurer as of March 31, 1999 are shown in the table below This may serve as a guide to JLGC for initial country risk ratings

## COUNTRY RISK CATEGORIES

(prepared by SACE, 3/30/99)

Abu Dhabi	2	Cuba	6	Kuwait	2
Afghanistan	6	Cyprus	3	Laos	6
Albania	6	Czech Rep	2	Latvia	4
Algeria	5	Denmark	1	Lebanon	5
Andorra	2	Djibouti	6	Lesotho	5
Angola	6	Dominica	5	Liberia	6
Antigua	6	Dominican Rep	5	Libya	6
Antilles	6	Ecuador	6	Liechtenstein	1
Argentina	4	Egypt	4	Lithuania	4
Armenia	6	El Salvador	5	Luxemburg	1
Aruba	6	Entrea	6	Macao	3
Australia	1	Estonia	3	Macedonia	6
Austria	1	Ethiopia	6	Madagascar	6
Azerbaijan	6	Fiji	5	Malawi	6
Bahamas	3	Finland	1	Malaysia	3
Bahrein	3	France	1	Maldives	5
Bangladesh	6	Gabon	6	Mali	6
Barbados	4	Gambia	6	Malta	2
Belgium	1	Georgia	6	Mauretania	6
Belize	5	Germany	1	Mauritius	3
Benin	6	Ghana	5	Mexico	4
Bhutan	5	Greece	1	Moldova	6
Bolivia	5	Grenada	5	Monaco	1
Bosnia-Herzegovina	6	Guatemala	5	Mongolia	6
Botswana	4	Guinea	6	Morocco	4
Brasil	5	Guinea Bissau	6	Mozambique	6
Brunei	2	Guinea Equat	6		
Bulgaria	5	Guyana	6		
Burkina Faso	6	Haiti	6		
Burundi	6	Honduras	6		
Byelorussia	6	Hong Kong	2		
Cambodia	6	Hungary	3		
Cameroon	6	Iceland	1		
Canada	1	India	4		
Cape Verde	5	Indonesia	5		
Central Africa Rep	6	Iran	5		
Chad	6	Iraq	6		
Chile	2	Ireland	1		
China	2	Israel	3		
Colombia	4	Jamaica	5		
Comoros	6	Japan	1		
Congo	6	Jordan	5		
Congo Rep	6	Kazakhstan	5		
Cook Islands	5	Kenya	6		
Costa Rica	5	Kirghizstan	6		
Cote D'Ivoire	6	Korea, South	3		
Croatia	4	Korea, North	6		

Myanmar	6	Trinidad&Tobago	5
Namibia	4	Tunisia	3
Nepal	5	Turkey	5
Netherlands	1	Turkmenistan	5
New Zealand	1	Uganda	6
Nicaragua	6	Ukraine	6
Niger	6	United Kingdom	1
Nigeria	6	United States	1
Norway	1	Uruguay	3
Oman	3	Uzbekistan	5
Other Arab Emirates	3	Venezuela	5
Pakistan	5	Vietnam	5
Palestine	6	Yemen	6
Panama	5	Yugoslavia	6
Papua N Guinea	5	Zambia	6
Paraguay	5	Zimbabwe	4
Peru	5		
Philippines	3		
Poland	3		
Portugal	1		
Puerto Rico	2		
Qatar	2		
Romania	5		
Russia	5		
Rwanda	6		
Sao Tome e Prnc	6		
Saudi Arabia	3		
Senegal	6		
Seychelles	6		
Sierra Leone	6		
Singapore	2		
Slovakia	4		
Slovenia	2		
Somalia	6		
South Africa	3		
Spain	1		
Sri Lanka	5		
St Vincent &Grenadines	5		
St Kitts &Nevis	6		
Sudan	6		
Surinam	6		
Swaziland	5		
Sweden	1		
Switzerland	1		
Syna	6		
Taiwan	2		
Tajikistan	5		
Tanzania	6		
Thailand	4		
Togo	6		

- 7 JLGC should review and adjust the entire country limitation schedule at least annually and make interim changes to reflect major shifts in risk and creditworthiness, which affect the suitability of applying different premium rates to individual transactions
- 8 JLGC should review the basic table of post-shipment premiums on an annual basis, but try to avoid making adjustments more frequently than every 2-5 years. Stability and continuity of reasonable insurance premiums will encourage program usage and enhance JLGC's financial position